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BEFORE THE ARIZONA CORPORATION COMMISSION

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*[Signature]*

IN THE MATTER OF THE APPLICATION  
OF KOHL'S RANCH WATER COMPANY  
FOR AN EMERGENCY RATE INCREASE.

Docket No. W-02886A-10-0369

**APPLICANT KOHL'S RANCH  
WATER COMPANY'S RESPONSE  
TO STAFF REPORT**

Kohl's Ranch Water Company (KRWC) submits this response (Response) to the Staff Report docketed October 21, 2010, (Staff Report) concerning KRWC's application with the Arizona Corporation Commission (ACC) for an emergency rate increase. The Staff Report demonstrates that Staff and KRWC are in agreement as to almost all of KRWC's application. As explained in the following memorandum, however, the differences are critical in that they represent the margin between KRWC being able to maintain service to customers pending a formal rate increase and KRWC not being able to maintain service.

In addition to addressing KRWC's disagreements with the Staff Report in Section II of the Response, Section III presents revisions to numbers submitted in KRWC's initial application. These revisions reflect (1) increased water usage by one of KRWC's customers, the Kohl's Ranch Lodge (Resort); (2) increased water testing costs; (3) more break down of purchased power costs; (4) amortization of costs related to the emergency rate increase; and (5) an adjustment to income tax expense. At the bottom line of these

1 revisions, KRWC seeks monthly surcharge rates of \$28.50 for its 5/8-inch by 3/4-inch  
2 metered (residential) customers, and \$3,200 for its 6-inch metered (Resort) customer.

## 3 4 **MEMORANDUM**

### 5 **I. Introduction**

#### 6 **A. KRWC operates pursuant to a 1972 tariff with subsidies from its** 7 **owner, ILX.**

8 KRWC is a Class D water company with a service area largely surrounded by the  
9 Tonto National Forest off of State Route 260 in Payson, Arizona. KRWC serves 124 5/8-  
10 inch by 3/4-inch metered stand-alone residences, most of which are primarily occupied on  
11 weekends and seasonally. KRWC's one 6-inch metered customer, the Resort, is comprised  
12 of a lodge and stand-alone cabins, as well as various resort amenities.  
13

14 KRWC utilizes two water systems. One is a spring system that pipes water from the  
15 Indian Gardens Spring on United States Forest Land to the residential customers. The other  
16 is a well system that pumps water from a well to a storage tank, and is the primary source of  
17 water to the Resort. The well system also provides water to the residential customers in  
18 times when production from the spring does not meet demand.  
19

20 As noted in the Staff Report, KRWC is in compliance with the requirements of the  
21 Arizona Department of Water Resources (ADWR) and the Arizona Department of  
22 Environmental Quality (ADEQ). Moreover, KRWC has a history of compliance, and has  
23 not been the subject of complaints to the ACC.  
24

25 KRWC was acquired by ILX Resorts Incorporated (ILX) in 1995. At that time and  
26 continuing until today, KRWC operated pursuant to rates in effect since November 1972, as  
27 authorized in ACC Decision No. 42881. The 1972 tariff authorizes a \$5.75 monthly  
28

1 customer charge for customers with 5/8-inch by 3/4-inch meters includes the first 5,000  
2 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand  
3 gallons. The same rate applies to the 6-inch metered customer. Revenues generated by the  
4 1972 tariff are insufficient to cover the actual cost of operating KRWC, and ILX has been  
5 subsidizing the utility with cash, labor, parts, supplies and services.  
6

7 **B. Due to bankruptcy, ILX is no longer available to subsidize KRWC.**

8 On March 2, 2009, ILX and certain of its subsidiaries -- not including KRWC -- filed  
9 for protection from creditors under Chapter 11 of the United States Bankruptcy Code. On  
10 July 23, 2010, the Bankruptcy Court approved a Plan of Reorganization and issued an order  
11 that provides for the sale of substantially all of the assets of ILX.<sup>1</sup> The remaining assets of  
12 ILX after wind-up of its affairs will be distributed to unsecured creditors. The assets  
13 necessary to operate KRWC were expressly retained by ILX and not sold.  
14  
15

16 **C. KRWC must now generate sufficient revenue to cover all of its**  
17 **costs.**

18 To continue to maintain service without the ILX subsidy, as KRWC must now do,  
19 requires sufficient revenue for KRWC to stand alone. Standing alone means paying every  
20 cost involved in operating a water company. And KRWC must do so without relying on the  
21 convenient availability of Resort management and staff, as KRWC was able to do when  
22 (until the bankruptcy) ILX owned both KRWC and the Resort.  
23  
24  
25

26 <sup>1</sup> *In re ILX Resorts Inc.* U.S. Bankruptcy Crt. Ariz. Case No. 2:09-bk-03594-RTB,  
27 "Order Authorizing: (1) Sale of Substantially All Assets of the Debtors Free and Clear of  
28 All Liens, Claims, Interests and Encumbrances; and (2) Assumption and Assignment of  
Certain Executory Contracts and Unexpired Leases," July 23, 2010; "Order Confirming  
First Amended Joint Plan of Reorganization by Textron Financial Corporation and  
Debtors," July 23, 2010.

1 Now KRWC needs personnel to travel to the KRWC service area to check the  
2 systems daily, read the meters, do maintenance and repairs. KRWC needs personnel to  
3 generate monthly bills, do banking and accounting and prepare taxes. KRWC needs  
4 personnel to hire and manage other personnel, to be available for customer calls, to make  
5 decisions on major repairs and capital needs. These personnel are no longer Resort  
6 employees performing these functions as part of a 40-hour work week. These are third-  
7 party contractors who, even if being paid for one hour of work and travel time, must track  
8 their time, submit invoices, wait to be paid, carry insurance; and all of this will be reflected  
9 in their hourly rates. KRWC also needs cash to buy parts to repair the water systems, to  
10 buy office supplies, to mail water bills. These are current, non-speculative, non-  
11 extraordinary needs.

## 12 **II. KRWC Response to Staff's Analysis and Recommendations**

13  
14  
15 With respect to the emergency determination, staff concludes (and KRWC agrees)  
16 that KRWC meets the criterion for qualification for emergency rate relief on the grounds  
17 that KRWC's conditions brings into serious doubt its ability to maintain service during the  
18 pendency of a formal rate application. In addition, KRWC believes the circumstances  
19 qualify for the insolvency criterion for emergency rate relief in that KRWC, absent ILX  
20 support, is unable to meet its month-to-month financial obligations.

21  
22 With respect to Staff's Recommendations, KRWC does not object except with  
23 respect to Recommendations Nos. 1, 5 and 9. The bases of KRWC's objections are  
24 discussed next.  
25  
26  
27  
28

1           **A. KRWC Response to Staff Recommendation No. 1**

2           In Staff Recommendation No.1, Staff recommends a \$26.37 monthly surcharge for  
3 5/8-inch x 3/4-inch metered customers (residential) and \$2,200 monthly surcharge for 6-inch  
4 metered customers (Resort), which are surcharge amounts below those sought by KRWC.  
5 The difference in surcharge amounts arise from Staff's reduction in the amounts KRWC  
6 requested for (1) purchased power; (2) repairs and maintenance; (3) outside services/legal  
7 fees; (4) rate case costs; and (5) income taxes. KRWC responds to Staff's changes as to  
8 each of these as follows:  
9  
10

11                   **1. Purchased Power**

12           In Staff Adjustment A, Staff reduces KRWC's requested purchased power expense  
13 by \$1,422: from \$2,020 to \$598 annually. In its application, KRWC estimated annual  
14 power costs of \$2,020 by multiplying the total annual demand of 5,050 gallons (in  
15 thousands) by \$0.40 per thousand. Staff strikes the power expense with respect to  
16 3,555,000 of these gallons for the stated reason that "the spring system uses gravity flow  
17 and does not utilize a pump."  
18  
19

20           But to the contrary, the spring system does require purchased power. The system  
21 includes a constantly-running chlorinator pump that is housed in a building that has electric  
22 lights and that is heated in colder months so the pipes do not freeze. Indeed, in August, as  
23 part of the effort to separate the Resort from KRWC, KRWC installed an electric meter on  
24 the spring system at a cost of more than \$1,000 that is not reflected in KRWC's requested  
25 surcharges.  
26

27           Moreover, circumstances here do not call for a differentiation between power costs  
28 allocated to the spring system and the well system. While it is true that the residential

1 customers primarily receive water from the spring system, they also are served by the well  
2 system when production from the spring is not sufficient to meet demand. This back up  
3 water supply to the residential customers from the well system is critical to continuous  
4 service to the residential customers.  
5

## 6 **2. Repairs and Maintenance**

7 In Staff Adjustment B, Staff strikes the \$996 KRWC seeks beyond its 2009 actual  
8 repair and maintenance costs, which were \$2,004 or approximately \$167 per month. As  
9 described in Section I of this Response, the additional \$996 is necessary because all service  
10 and labor will need to be contracted out to third parties. It can very reasonably be assumed  
11 that third-party contractors will charge KRWC a higher hourly rate than ILX paid to its full-  
12 time employees. KRWC estimates this increase to be \$83 per month (\$996 per year) and  
13 result in \$3,000 per year, or \$250 per month.  
14  
15

## 16 **3. Outside Services: Legal Fees**

17 Staff Adjustment C removes a requested \$6,000 (\$500 per month) in legal expenses  
18 for KRWC going forward. It should be noted that Staff wrongly asserts that the \$6,000  
19 reflects ILX's costs in the bankruptcy. The \$6,000 does not include legal fees from the  
20 bankruptcy or, importantly, any of the legal fees associated with this emergency rate case,  
21 including those additional fees generated due to entry of the intervenors.  
22

23 The \$6,000 is strictly for KRWC's on-going operations. Water companies regularly  
24 face legal and regulatory questions, for example regarding service obligations, water quality  
25 and employment contractor agreements. Previously these had been handled for KRWC by  
26 ILX counsel. Now, on an ongoing basis, KRWC must be able to retain and pay counsel  
27 until the permanent rate case is resolved.  
28

1                   **4.     Rate Case Costs**

2           Staff Adjustment D removes \$2,500 requested by KRWC for rate case expense as  
3 "not essential" and because "a normalized level of rate case expense will be provided for in  
4 the Company's permanent rate case." The undeniable reality is, however, that it is unlikely  
5 KRWC will have new, permanent rates in effect before early 2013. KRWC will have to  
6 operate for more than two years without recovering the cost of the consultant for the  
7 emergency case. In addition, in the past, Staff has recommended and the ACC has adopted,  
8 rate case expense related to emergency rate cases. As a compromise here, however, KRWC  
9 proposes to amortize rate case expense for this emergency case over the two years until the  
10 interim rates are expected to be in place.  
11

12                   **5.     Income Taxes**

13           Staff Adjustment E eliminates \$611 of income tax expense based upon Staff's  
14 elimination of any income for KRWC. KRWC had requested minimal operating income  
15 (\$2,320) to address the necessity of using estimations in its operating costs calculations.  
16 Obviously, no one can know the actual expenses of KRWC operating without subsidy until  
17 the actual expenses are incurred. Staff's assertion that its recommended surcharge based on  
18 a break-even methodology "is sufficient to allow the Company to pay for all of its  
19 operations and maintenance costs" truly has no basis. Unfortunately, there is greater  
20 certainty in the fact that a water company trying to stand on its own for the first time will  
21 fail, given no margin for error. An operating margin of 2.59%, or \$2,320 (less than \$200  
22 per month) is reasonable, necessary, and in the best interests of the ratepayers. Restoring  
23 this margin would result in an expense to KRWC of \$611 for income taxes.  
24  
25  
26  
27  
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1           **B. KRWC Response to Staff Recommendation No. 5**

2           In Recommendation No. 5, Staff recommends KRWC be required to post a bond or  
3           irrevocable letter of credit in the amount of \$145,800. As addressed throughout this  
4           Response, KRWC is not in a position to satisfy this recommendation and requests that the  
5           requisite bond be set at \$10 as is frequently done in similar circumstances.  
6

7           **C. KRWC Response to Staff Recommendation No. 9**

8           In Recommendation No. 9, Staff recommends that KRWC be required to install a  
9           water meter to track the gallons obtained through the spring system. Reduced maintenance  
10          expense for labor, no depreciation expense related to this asset, and zero income would  
11          make it very difficult for KRWC to comply with this recommendation. Moreover, Staff  
12          states in its Report that there are not operational problems with the system, and the meter is  
13          not required by ADWR or ADEQ. For these reasons, KRWC contends that a  
14          recommendation for capital improvements of this nature are more appropriate in the  
15          permanent rate case.  
16  
17

18       **III. KRWC's Revised Position**

19           KRWC has made several changes from its original filing. These changes are  
20          discussed below and reflected on Rebuttal Schedules SSR-1 through SSR-4. The most  
21          significant change arises from the installation of a new meter on September 1, 2010, on the  
22          water line to the Resort. As a result of the new metering, the Resort's metered water usage  
23          increased by approximately 96,000 gallons for September 2010, the first month of metering.  
24          The impacts of these additional metered gallons (Additional Resort Gallons) are discussed  
25          in detail below.  
26  
27  
28



1           **A.       Rebuttal Schedule SSR-4 – Usage Adjustments**

2           Rebuttal Schedule SSR-4 is the foundational schedule that projects the impact of the  
3 Additional Resort Gallons. Rebuttal Schedule SSR-4 uses September of 2009 and 2010 to  
4 set a baseline to determine the additional number of gallons that should be attributed to the  
5 Resort throughout 2009. In column (c), the difference between each month in the year 2009  
6 and September 2009 is calculated, and column (d) expresses that amount as a percentage of  
7 the September 2009 amount. In column (f), that percentage is then applied to the actual  
8 usage for September 2010 in column (e) to estimate the difference between each month for  
9 the year in 2009. Columns (e) and (f) are then added together to determine the estimated  
10 monthly gallons for 2009 if the new meter had been in place throughout 2009. This  
11 calculation projects an additional 1,120,747 gallons, or a total of 2,615,247 gallons for the  
12 Resort in 2009.  
13  
14  
15

16           The total usage of the Resort in 2009 was compared to the total usage of the  
17 residential customers. The residential usage amount for the month of March was adjusted  
18 downward by 199,910 gallons to account for a leak in a customer's system because the  
19 usage attributable to the leak is expected to be non-recurring. In May 2009, four residential  
20 customers had adjustments that resulted in negative gallons totaling 23,460 gallons.  
21 Because it is impossible to use negative gallons, this amount has been normalized for  
22 accuracy. Both adjustments result in a total decrease of 176,450 gallons resulting in an  
23 adjusted total residential usage of 3,377,853 gallons.  
24  
25

26           These revised total usage amounts for 2009 for both the Resort and the residential  
27 customers were then used to calculate a revised average month gallons for each user as  
28

1 detailed in Revised Schedule SSR-4. As detailed on Revised Schedule SSR-4, the  
2 residential customers used approximately 56.36% of the total water used during 2009.

3 **B. Rebuttal Schedule SSR-3 – Surcharge Calculation**

4  
5 Rebuttal Schedule SSR-3 details the calculation determining the revised surcharge  
6 revenue that accounts for Additional Resort Gallons as projected on Rebuttal Schedule  
7 SSR-4. Rebuttal Schedule SSR-3 also provides additional relevant facts and statistics to  
8 help assess the surcharge allocation between the Resort and the residential customers.  
9 Consistent with SSR-3, the proposed monthly surcharges were calculated to reach the  
10 estimated annual surcharge revenue needed to cover the deficit between the estimated  
11 revenue and the estimated expenses. The proposed surcharge allocation results in both  
12 Resort and residential customers paying, on average, approximately the same cost per  
13 gallon used.  
14  
15

16 In comparison, as reflected on Rebuttal Schedule SSR-3, during 2009, the 124  
17 residential customers used an average of 2,270 gallons per month at a cost of \$5.75 per  
18 month, or \$2.53 per thousand gallons under the current tariff. The Resort required an  
19 average of 217,937 gallons per month, based on the adjusted gallons calculated on Rebuttal  
20 Schedule SSR-4, at a cost of \$112.22 per month (\$5.75 plus \$0.50 per 1,000 gallons after  
21 the first 5,000 gallons) or \$0.51 per thousand gallons.  
22

23 KRWC now proposes a more equitable cost distribution. KRWC seeks a revised  
24 monthly surcharge of \$28.50 for the residential customers. This will result in the average  
25 monthly residential customer paying \$34.25 per month, or \$15.09 per thousand gallons.  
26 Although the monthly average gallons for residential customers is 2,270 gallons (27,241  
27 gallons annually), approximately 29% of the customers on this system exceed that level,  
28

1 some by a substantial amount. As a result, the average cost per thousand gallons for those  
2 customers would be substantially less under the surcharge rate.

3 KRWC also proposes a revised monthly surcharge amount for the Resort of \$3,200  
4 per month. This surcharge amount will result in the Resort paying \$3,312.22 per month, or  
5 approximately \$15.20 per thousand gallons.  
6

7 Based upon the revised proposed surcharge rates in Rebuttal Schedule SSR-3,  
8 52.48% of the requisite monthly surcharge revenue would come from the residential  
9 customers, and 47.52% would be generated by the Resort. The residential customers,  
10 however, account for 56.36% of the total water usage on average. KRWC believes that its  
11 proposed surcharges are a fair and equitable way to distribute water system the costs  
12 among its customers in this interim emergency situation, while balancing ability to pay  
13 concerns with usage demands.  
14  
15

16 **C. Rebuttal Schedules SSR-1 and SSR-2 – Statement of Income and Loss**  
17 **Including Proforma Adjustments**

18 KRWC's changes to Adjustments 3, 5, 7, 9, 10 and 13 are reflected in  
19 Rebuttal Schedules SSR-1 and SSR-2. These are explained next.

20 **1. Adjustments 5 and 7 – Reflecting the Additional Resort Gallons**

21 Adjustment 5 in Rebuttal Schedule SSR-1, identifies an additional \$560 in revenue  
22 for 2009 attributable to the Resort. This value is based upon the estimated 1,120,747  
23 additional gallons consumed by the Resort as detailed in Rebuttal Schedule SSR-4.  
24 Rebuttal Schedule SSR-2 regarding Adjustment 5 shows the calculation underlying the  
25 previously unrecognized \$560 in revenue. Because of the projected additional metered  
26 gallons, Adjustment 5 also further increases the projected metered water revenue from  
27  
28

1 \$79,488 in SSR-1 to \$80,808 in Rebuttal Schedule SSR-1 based upon the revised proposed  
2 surcharge amounts calculated on Rebuttal Schedule SSR-3.

3 Adjustment 7 on Rebuttal Schedule SSR-1 reflects the additional purchased power  
4 costs attributable to the additional gallons allocated to the Resort. Consistent with SSR-1  
5 and SSR-2, and as discussed in Section II of this Response, Rebuttal Schedules SSR-1 and  
6 SSR-2 estimate that it costs approximately \$0.40 to pump 1,000 gallons of water. KRWC's  
7 revised amount for purchased power expense is detailed on Rebuttal Schedule SSR-2. The  
8 revised figure amounts to less than \$200 per month to power both systems – an amount  
9 KRWC believes to be an extremely conservative estimate.

12 **2. Adjustments 3 and 9– Reclassification of Vendor Water Testing**  
13 **Services**

14 In SSR-1, KRWC originally identified \$48,379 in outside services (see account no.  
15 630). Adjustment 3 identified in Rebuttal Schedule SSR-1 reflects the reclassification of  
16 \$3,030 originally identified as outside services in SSR-1 to water testing services (compare  
17 account no. 630 with account no. 635) in Rebuttal Schedule SSR-1. Upon further  
18 investigation, KRWC determined that ILX paid \$3,030 for this individual to visit the site  
19 and draw water samples to meet regulatory testing requirements. Invoices for services  
20 during 2009 ranged between \$345 and \$190 per month, and included time to travel and  
21 draw water samples and well as the cost of the tests by the lab. Thus, KRWC has  
22 determined that this vendor's services are more appropriately classified as water testing  
23 instead of outside services.

26 As a result of Adjustment 3, KRWC now requests annual water testing expense of  
27 \$5,835 which reflects the costs of testing both of KRWC's water systems. The original  
28

1 amount requested for water testing services in SSR-1, \$2,805 reflects the costs of the daily  
2 testing of the water system, including labor and laboratory tests for the water system. The  
3 reclassified \$3,030 reflects costs of the testing and certification required by the ADEQ.  
4

5 Adjustment 9 on Rebuttal Schedule SSR-1 reflects the reduction in the reclassified  
6 water testing services performed by an outside vendor (\$3,030) in accordance with  
7 Adjustment 3 and thus reduces the amount attributable to outside services from \$48,379 in  
8 SSR-1 to \$45,349 in Rebuttal Schedule SSR-1. KRWC continues to project a total of  
9 \$65,000 per year in outside services expenses in Rebuttal Schedule SSR-1, despite the  
10 reclassification. SSR-2 which originally calculated the proposed annual outside services  
11 costs did not account for the reclassified water services when estimating the likely costs of  
12 stand-alone services. Rather this figure was based solely upon estimated daily operator  
13 fees, billing/accounting/management services, annual reporting/tax returns fees, and legal  
14 expenses.<sup>2</sup>  
15  
16

### 17 3. Other Adjustments

18 As discussed previously, Adjustment 10 on Rebuttal Schedule SSR-1 reflects a  
19 decrease in the costs of the emergency rate proceedings to amortize costs related to this  
20 emergency rate proceeding over a two year period when permanent rates are expected to be  
21 determined in a rate case.  
22

23 Adjustment 13 on Rebuttal Schedule SSR-1 adjusts income tax expenses to reflect  
24 estimated taxes due on the minimal level of income proposed by KRWC.  
25  
26

27  
28 <sup>2</sup> The value in Column 4 of SSR-1 and Rebuttal Schedule SSR-1 was determined  
based solely on the difference between the projected \$65,000 and the amount attributable to  
outside services that were paid by ILX.

1 **IV. Conclusion**

2 For all of these reasons, KRWC urges adoption of the terms of its rebuttal schedule.

3  
4 Dated this 27th day of October, 2010.

5 POLSINELLI SHUGHART PC

6  
7  
8 By: 

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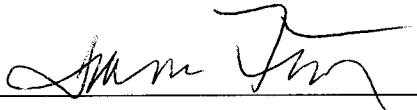
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11 **ORIGINAL** + 13 copies filed this  
12 27th day of October, 2010, with the  
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13 COPY mailed this same date to:

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24  
25 

**Kohl's Ranch Water Company, Inc.**  
**2009 Statement Of Income and Loss Including Proforma Adjustments**  
**Docket No. W-02886A-10-0369**

Acct	Description	<u>1</u> Reported - Year Ended 31-Dec-09	<u>2</u> 2009 Expenses Paid by ILX	Ref	<u>1+2=3</u> 2009 Actual Utility Operations	<u>4</u> Adjustments to Stand Alone Entity	Ref	<u>3+4=5</u> 2009 Incl Proforma Adjustments
<b>Operating Revenues:</b>								
461	Metered Water Revenue	\$ 10,011	\$ 560	5	\$ 10,571	\$ 80,808	5	\$ 91,379
474	Other Water Revenue	-			-			-
474	Surcharge Revenue	-			-			-
	<b>Total Operating Revenue</b>	<b>\$ 10,011</b>	<b>\$ 560</b>		<b>\$ 10,571</b>	<b>\$ 80,808</b>		<b>\$ 91,379</b>
<b>Operating Expenses:</b>								
601	Salaries & Wages	\$ 4,264			\$ 4,264	\$ (4,264)	6	\$ -
610	Purchased Water	-			-			-
615	Purchased Power	225			225	2,172	7	2,397
618	Chemicals	-			-			-
620	Repairs & Maintenance	4,315	2,004	1	6,319	996	8	7,315
621	Office Supplies and Expense	-	1,778	2	1,778			1,778
630	Outside Services	-	45,349	3	45,349	19,651	9	65,000
635	Water Testing	2,805	3,030	3	5,835			5,835
641	Rental Expense	-			-			-
650	Transportation Expense	-			-			-
657	Insurance - General Liability	2,810			2,810			2,810
659	Insurance - Health and Life	-			-			-
665	Regulatory Commission Exp	-			-			-
666	Rate Case Expense	-			-	1,250	10	1,250
675	Miscellaneous Expense	337	(208)	4	129			129
403	Depreciation & Amortization	833			833	977	11	1,810
408	Taxes Other Than Income	694			694	(694)	12	-
408	Property Taxes	402			402			402
409	Income Taxes	-			-	553	13	553
	<b>Total Operating Expenses</b>	<b>\$ 16,685</b>	<b>\$ 51,953</b>		<b>\$ 68,638</b>	<b>\$ 20,641</b>		<b>\$ 89,279</b>
	<b>OPERATING INCOME/(LOSS)</b>	<b>\$ (6,674)</b>	<b>\$ (51,393)</b>		<b>\$ (58,067)</b>	<b>\$ 60,167</b>		<b>\$ 2,101</b>
<b>Other Income/(Expense):</b>								
419	Interest and Dividend Income	\$ -			\$ -			\$ -
427	Interest Expense	-			-			-
	<b>Total Other Income/(Exp)</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>
	<b>NET INCOME/(LOSS)</b>	<b>\$ (6,674)</b>	<b>\$ (51,393)</b>		<b>\$ (58,067)</b>	<b>\$ 60,167</b>		<b>\$ 2,101</b>

Company Proposed Operating Margin 2.30%

Adjustments 1 through 13 are explained on Rebuttal Schedule SSR-2

**Kohl's Ranch Water Company, Inc.**  
**Summary of Income Statement Adjustments**  
**Docket No. W-02886A-10-0369**

- Adjustment 1 Increase for repairs and maintenance labor provided by ILX.
- Adjustment 2 Increase to include reclassified expenses and office supplies provided by ILX.
- Adjustment 3 Increase for current daily managerial operations, meter reading, billing and accounting, tax preparation and reporting, and management to Outside Services (\$45,349), and increase water testing (\$3,030) for third party water sampling and testing.
- Adjustment 4 Reclassify expenditures as office supplies.
- Adjustment 5 Increase metered water revenue for untracked well gallons per SSR-4. (1,120,747 gallons divided by 1000, times \$0.50 per thousand = \$560), and then by the surcharge revenue as calculated on Schedule SSR-3.
- Adjustment 6 Eliminate salaries and wages as utility no longer has employees.
- Adjustment 7 Increase purchased power per following calculation:
- |   |                 |
|---|-----------------|
| Revised Total Gallons (in thousands)        | 5,993           |
| Estimated pumping cost per thousand gallons | \$ 0.40         |
| Estimated annual pumping cost (stand-alone) | <u>\$ 2,397</u> |
- Adjustment 8 Increase repairs and maintenance to adjust ILX amount of \$2,004 to third party estimated amount of \$3,000.
- Adjustment 9 Increase outside services expense per estimated stand-alone costs:
- |   | <b>Monthly<br/>Amount</b> | <b>Annual<br/>Amount</b> |
|---|---------------------------|--------------------------|
| Daily Operator                          | \$ 1,750                  | \$ 21,000                |
| Billing/Accounting/Management           | 3,000                     | 36,000                   |
| Annual Reporting/Tax Returns            |                           | 2,000                    |
| Legal Expenses                          | 500                       | <u>6,000</u>             |
| <b>Proposed Annual Outside Services</b> |                           | <b><u>\$ 65,000</u></b>  |
- Adjustment 10 Increase for estimated cost of emergency rate proceeding amortized over a two year period. (\$2,500 divided by 2)
- Adjustment 11 Increase depreciation expense for 6" meter installed to serve resort and other related areas. (\$7,812 cost times 12.5% annual depreciation)
- Adjustment 12 Adjust payroll taxes as utility no longer has employees.
- Adjustment 13 Include income taxes for Federal and Arizona on \$2,654 of income.



**Kohl's Ranch Water Company, Inc.**  
**Calculation of Proposed Emergency Surcharge**  
**Docket No. W-02886A-10-0369**

	2009 Revised Avg Monthly Gallons	Current Rates			Proposed Monthly Surcharge	Proposed Rates		
		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals		Monthly Cost	Cost Per Gallon	Cost Per 1,000 Gals
Residential System	2,270	\$ 5.75	\$ 0.0025	\$ 2.53	\$ 28.50	\$ 34.25	\$ 0.0151	\$ 15.09
Resort System	217,937	\$ 5.75						
		106.47						
		\$ 112.22	\$ 0.0005	\$ 0.51	\$ 3,200.00	\$ 3,312.22	\$ 0.0152	\$ 15.20
Estimated monthly surcharge revenue from Residential system customers <sup>1</sup>					\$ 3,534	52.48%	56.36%	
Estimated monthly surcharge revenue from Resort system					3,200	47.52%	43.64%	
Total estimated monthly surcharge revenue					\$ 6,734	100.00%	100.00%	
Total estimated annual surcharge revenue					\$ 80,808			

<sup>1</sup> 2009 year-end customer amount of 124 used.

**Kohl's Ranch Water Company, Inc.**  
**Calculation of Adjustments to Gallons Used**  
**Docket No. W-02886A-10-0369**

**2009 Actual Resort Usage Adjusted for New Meter**

Month/Year	Resort system 2009 Actual Gallons (a)	September 2009 Actual Gallons (b)	Difference from Sept (gallons) (c)=(a)-(b)	Difference from Sept (percentage) (d)=(c)/(a)	September 2010 Actual Gallons (e)	Difference By Month from 2009 Actual (f)=(e)-(d)	Estimated Gallons Incl New Gallons (g)=(e)+(f)
Jan-09	83,900	117,000	(33,100)	-39.45%	213,000	(84,032)	128,968
Feb-09	115,100	117,000	(1,900)	-1.65%	213,000	(3,516)	209,484
Mar-09	147,900	117,000	30,900	20.89%	213,000	44,501	257,501
Apr-09	105,500	117,000	(11,500)	-10.90%	213,000	(23,218)	189,782
May-09	150,600	117,000	33,600	22.31%	213,000	47,522	260,522
Jun-09	136,200	117,000	19,200	14.10%	213,000	30,026	243,026
Jul-09	143,000	117,000	26,000	18.18%	213,000	38,727	251,727
Aug-09	160,900	117,000	43,900	27.28%	213,000	58,115	271,115
Sep-09	117,000	117,000	-	0.00%	213,000	-	213,000
Oct-09	137,500	117,000	20,500	14.91%	213,000	31,756	244,756
Nov-09	95,800	117,000	(21,200)	-22.13%	213,000	(47,136)	165,864
Dec-09	101,100	117,000	(15,900)	-15.73%	213,000	(33,499)	179,501
Totals	1,494,500	1,404,000	90,500		2,556,000	59,247	2,615,247

**Revised gallonage amount for 2009 Resort system: 2,615,247**

**Estimated increase in 2009 Resort gallons (above amount less (a) total): 1,120,747**

**2009 Actual Residential Usage Adjusted for Non-Recurring and Negative Gallons**

Month/Year	Residential 2009 Actual Gallons (a)	Adjustments to 2009 Amounts (b)	Adjusted 2009 Usage (c)=(a)+(b)		
Jan-09	72,820		72,820		
Feb-09	63,060		63,060	March resident actual usage	204,060
Mar-09	329,370	(199,910)	129,460	Average of February and April usage	(4,150)
Apr-09	170,970		170,970	Reduction in March usage due to leak	199,910
May-09	482,480	23,460	505,940	May negative gallons adjustments	(1,960)
Jun-09	545,390		545,390		(10,000)
Jul-09	518,630		518,630		(10,010)
Aug-09	575,380		575,380		(1,490)
Sep-09	298,173		298,173	Total May adjustment for negative gallons	(23,460)
Oct-09	283,700		283,700		
Nov-09	113,580		113,580		
Dec-09	100,750		100,750		
	3,554,303	(176,450)	3,377,853		

		<u>% of Total</u>
Revised gallonage amount for 2009 Residential usage:	3,377,853	56.36%
Revised gallonage amount for 2009 Resort usage:	2,615,247	43.64%
Total Kohl's Ranch revised gallonage amount for 2009 usage:	5,993,100	100.00%

Revised gallonage amount for 2009 Residential usage: 3,377,853  
Number of Residential customers: 124  
Residential Average Annual Gallons/Customer: 27,241

**Residential Average Monthly Gallons/Customer: 2,270**

Revised gallonage amount for 2009 Resort usage: 2,615,247

**Resort Average Monthly Gallons: 217,937**